

Office of the President

TO MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS:

DISCUSSION ITEM

For Meeting of November 18, 2014

STATUS OF THE PILOT PHASE OF THE DELEGATED PROCESS FOR CAPITAL IMPROVEMENT PROJECTS

EXECUTIVE SUMMARY

The pilot phase of the Delegated Process for Capital Improvement Projects (Delegated Process), adopted by the Regents in 2008 to increase campuses' approval autonomy for certain capital projects ends on March 31, 2015. The pilot phase has been an alternative to Regents' approval for projects with a total project cost of between \$10 million and \$60 million. The Regents delegated approval authority for budget and design for capital projects and the authority to make any related California Environmental Quality Act determinations to the chancellors, via the President, for the portfolio of projects in this cost range that meet eligibility criteria.

The campuses and the Office of the President generally consider the pilot phase of the Delegated Process to be meeting the Regents' objectives. From the initiation of the Delegated Process in 2008 through the end of fiscal year 2013-14, 86 submittals have been made by the campuses under the Delegated Process; these submittals represent 79 projects for which 128 separate actions for budget and/or design approval have been taken. Budgets approved via the Delegated Process during this timeframe total \$1.69 billion. In January 2015, the President of the University will propose a four-year extension to the pilot phase and propose that the capital budget and external financing limits be subject to an escalation factor.

BACKGROUND

In March 2008, the Regents accepted the report of the Capital Projects Working Group, representing the framework for the Delegated Process, and authorized an 18-month pilot phase (referred to variously as "Pilot Phase of Redesigned Process," "Redesigned Process," and "Pilot Phase of Process Redesign", and referred to herein as "pilot phase" of the Delegated Process) to implement the new delegated process for capital improvement projects. Following this action by the Regents, an Implementation Team reporting to the Executive Vice President for Business Operations was appointed in May 2008 to consider and resolve issues related to the initiation of the new program, to establish guidelines for participation in the pilot phase, and to facilitate its implementation.

In September 2008, the Regents approved implementing guidelines for the pilot phase of the Delegated Process. The guidelines provided a set of requirements for the *Ten-Year Capital Financial Plan*, *Physical Design Framework*, and *Delegated-Authority Project: Certification Checklist* (Checklist).

To participate in the pilot phase and submit projects under the Delegated Process, campuses and medical centers were required to submit two new plans for Regents' acceptance: a *Ten-Year Capital Financial Plan* (CFP) and a *Physical Design Framework* (PhDF). During the pilot phase, the ten campuses each completed and submitted for Regents' acceptance, their *Ten-Year CFP* and *PhDF*. These documents, in conjunction with the campus' strategic plan and approved Long Range Development Plan (LRDP), demonstrate an integrated academic, physical, and financially feasible capital planning framework. The two new plans and the campus' LRDP together provide the Regents with a comprehensive understanding of the framework and process that guide long-term programmatic, physical development, and financial strategies being implemented at each campus. The Regents delegated to the President, who redelegate to the chancellors, the authority to approve the budgets and designs of eligible projects for budgets up to \$60 million, and make any related California Environmental Quality Act (CEQA) determinations.

Through the use of the guidelines and related documents, and as required under the Delegated Process, chancellors attest to a project's eligibility under the Delegated Process, and submit documentation for a 15-day review by the Office of General Counsel for compliance with CEQA, and the Office of the President for financial feasibility of securing debt and policy-related risks. Based on the results of these reviews, the Office of General Counsel (for CEQA only) or the Executive Vice President – Chief Financial Officer affirms the following: the project is eligible for the Delegated Process; Regents' review is not required; and the Chancellor may approve the project on a delegated basis.

The campuses and the Office of the President generally consider the pilot phase of the Delegated Process to be meeting the Regents' objectives. In January 2015, the President of the University will propose: a (1) four-year extension to the pilot phase, and (2) that the capital budget and external financing limits be subject to an escalating factor.

PROGRAM OUTLINE

The Delegated Process for Capital Improvement Projects includes a set of integrated physical design and capital financial plans enabling the Regents to provide effective portfolio-level oversight of capital projects.

Capital Financial Plan

- (1) Each campus entity requesting to have projects approved via the Delegated Process is required to submit a *Ten-Year CFP*. The plan is a stand-alone portfolio document not requiring additional commentary or explanation, and describes a financially feasible capital program, how it relates to academic and strategic priorities, and the financing

strategies that will be used to implement the plan. The *Ten-Year CFP* is reviewed by the President of the University and accepted by the Regents.

- (2) Chancellors report annually to the President or designee any changes or updates to the campus' *Ten-Year CFP*. These updates will be consolidated in the University's *Ten-Year CFP* and presented to the Regents for acceptance annually.
- (3) The process for augmentations of the project budget under the Delegated Process is outlined in the *Delegated Process User Guide*. (Refer to Attachment 1A.) That Guide delineates authority to approve augmentations when the total augmented project budget does not exceed the \$60 million approval threshold and where a scope change does not entail a substantial program modification in physical characteristics or intended use of a project as previously approved. In circumstances where an augmentation would exceed these budget or scope limitations, review and approval by the Board would be required.
- (4) In January 2015, the President of the University will propose to the Regents an escalation factor to the \$60 million threshold for inclusion in the Delegated Process for Capital Improvements Projects. The proposed escalation factor would be based upon the California Construction Cost Index (CCCI), with the annual adjustment rounded to the nearest \$5 million. That factor (the CCCI) would be identified in the Standing Order 100.4: Duties of the President of the University relating to capital budget approvals and external financing approvals under the Delegated Process. Any change to the threshold would be reported annually to the Regents via the *Ten-Year CFP*.

Physical Design Framework

- (5) Each campus prepares a PhDF that describes the campus' principles and objectives for the design of the physical environment, how these relate to the campus LRDP, and how they are integrated into project planning and design, including descriptions of campus planning and design approval processes for capital projects. A PhDF becomes effective after acceptance by the Regents. A PhDF must be consistent with the LRDP, and capital projects must be consistent with the PhDF. A campus may, if it elects, have separate PhDFs for locations that are physically separated and that may have separate LRDPs. The PhDF is reviewed by the President of the University and accepted by the Regents.
- (6) In their action of September 2008, the Regents determined that minor amendments to a campus' PhDF may be approved by the President based on guidelines that were to be developed. Accordingly, the *Guidelines for Minor Amendments to Campus Physical Design Frameworks* define criteria as to what constitutes a "minor" amendment, and set forth the process for approving changes. (Refer to Attachment 1B.)

Certification Checklist

- (7) The *Delegated-Authority Project: Certification Checklist* (Checklist) provides the Chancellor with a mechanism to attest that, based on reasonable due diligence, a project:

is consistent with the applicable campus plans and otherwise meets the criteria for the Delegated Process; and, adheres to all applicable laws, regulations, and University and Regents' policies. (Refer to Attachment 1C for the Checklist.)

Reporting

- (8) The *Annual Report on Major Capital Projects Implementation* will provide the Regents with information, generally quantitative, which evaluates the implementation of goals for the capital program established by the Regents. By documenting the campuses' response to both Regents' and systemwide priorities, the annual report will ensure accountability to the Regents and the President of the University.

Delegated Process User Guide.

- (9) The *Delegated Process User Guide* (Attachment 1A) was developed to provide the campuses clarity on due diligence documentation, and to facilitate consistent application of criteria and processes. The *User Guide* details eligibility criteria, submittal requirements, and processes for securing delegated approvals.

STATUS OF THE DELEGATED PROCESS

In January 2010, the pilot phase was extended an additional year to March 2011. By November 2010, the ten campuses had their initial *Ten-Year CFP* and *PhDF* accepted by the Regents and those campus entities were approved to participate in the delegated process. In January 2011, the pilot phase was extended another three years to March 2014, and in January 2014, was extended to March 2015 in order to provide sufficient project data to evaluate the usefulness of the process.

As an integral step in substantiating the efficacy of the Delegated Process, the Office of the President requested that the Office of Ethics, Compliance and Audit Services (ECAS) conduct an audit of the approval process under the pilot phase. ECAS found that the documentation required by the process to demonstrate compliance with applicable laws and policies, as well as the due diligence and review by the campus "Subject Matter Experts," to be thorough and complete. Thus, ECAS has verified that these elements of the delegated process are functioning as intended. The audit also found that the communication between the campuses and Office of the President staff required adjustments, which was an additional driver in developing the *Delegated Process User Guide* (Attachment 1A).

Outcomes

A detailed discussion of the Delegated Process and the projects approved thus far is included in Attachment 2, the *Pilot Delegated Process for Capital Improvement Projects Report (Report)*. Capital Resource Management staff, including planners, architects, and construction managers visited all projects approved via the Delegated Process that were complete by June 30, 2014, to verify project completion, scope, and status. From process initiation through the end of fiscal year 2013-14, 86 submittals have been made under the Delegated Process, representing

79 projects and 128 separate actions for budget and/or design approval. Budgets approved via the Delegated Process during this timeframe total \$1.69 billion. In the same time frame, the Regents approved 75 project budgets totaling \$4.13 billion. Of the 79 delegated projects, 34 have been completed.

The *Report* contains a comparative analysis of the performance of projects greater than \$10 million and active or completed in fiscal year 2013-14 that were approved by chancellors under the Delegated Process, to those projects approved by the Regents or the President (“standard” method). The comparison shows that Delegated Projects had a higher percentage of change from original budget when compared to standard projects (1.93 percent vs. -3.23 percent). However, in 2013-14 two large projects recorded budget savings that skew the standard projects summary calculation; the San Francisco Medical Center at Mission Bay and the Northwest Housing project in Los Angeles combined for budget savings of \$316 million. When the performance of standard projects is adjusted for these unusual instances, the overall percentage of budget change for standard projects increases to 3.19 percent. On this basis, Delegated Projects performed better than standard-approved projects with only 1.93 percent change from original budget. Delegated projects also had fewer budget augmentations and fewer schedule changes than standard projects on a percentage basis.

The *Report* also includes descriptions of the following benefits that accrue to the campuses, and are illustrated in campus testimonials that appear in the *Report*:

- a strengthened planning process
- a more streamlined and effective process
- increased coordination of physical, environmental, and financial planning
- a more flexible schedule for approvals to facilitate coordination with external deadlines/constraints

Benefits of Delegated Process

The campuses and the Office of the President consider the pilot phase of the Delegated Process to be meeting the Regents’ objectives. The pilot phase has been an alternative to Regents’ approval for projects with a total project cost of between \$10 million and \$60 million. This option has increased campus autonomy, and provided for campus accountability for capital project delivery. The Delegated Process continues to meet legal and policy requirements for project approvals, and provides flexibility to the campuses in timing of approval actions compared to the set schedule required for Regents’ review and approval. The number of projects using the Delegated Process is expected to increase now that program eligibility, submittal expectations, and processing requirements are clarified.

The Delegated Process allows Regents to focus their efforts at a strategic level, providing portfolio oversight of high-level planning guides, addressing systemwide issues, and reviewing projects not conforming to the agreed-upon parameters. The role of the Office of the President is defined as a “service provider,” and in this role, it will continue to help campuses identify and mitigate legal or financial risks, as well as identify projects that require review and approval by the Regents. Finally, as experts on local conditions and needs, campuses have greater

responsibility and accountability for the successful delivery of delegated capital projects. The campuses and Office of President will continue to identify future process improvements.

Future Actions

In January 2015, the President of the University will request a four-year extension of the pilot phase of the Delegated Process. This extension requires related actions to be considered by (1) the Committee on Governance regarding amendments to Standing Order 100.4: Duties of the President of the University, and (2) the Committee on Grounds and Buildings for the amendments to Regents Policy 8102: Policy on Approval of Design, Long Range Development Plans, and the Administration of the California Environmental Quality Act.

The Committee on Governance will consider the conforming changes to the Standing Order 100.4 related to budget and external financing of capital projects under the Delegated Process to extend the pilot phase of the Delegated Process by four years, to March 31, 2019. The item will also include a recommendation that the \$60 million Delegated Process budget and financing thresholds be escalated by a factor tied to the CCCI, subject to change annually. The annual adjustment is to be rounded to the nearest \$5 million, and that adjustment is to be reported annually to the Regents via the *Ten-Year CFP*.

The item to be considered by the Committee on Grounds and Buildings will propose to amend Regents Policy 8102: Policy on Approval of Design, Long Range Development Plans, and the Administration of the California Environmental Quality Act, consistent with the extension of the pilot phase to March 31, 2019 and the conforming changes to Standing Order 100.4. The amended Policy 8102 would become effective upon the second and final approval of the amendments to the Standing Order 100.4, which would occur at the March 2015 Regents meeting.

Key to Acronyms

CCCI	California Construction Cost Index
CEQA	California Environmental Quality Act
ECAS	(UC) Office of Ethics, Compliance and Audit Services
LRDP	Long Range Development Plan
PhDF	Physical Design Framework

ATTACHMENTS:

Attachment 1: Documents related to the Delegated Process for Capital Improvements

1A: *Delegated Process User Guide*

1B: *Guidelines for Minor Amendments to Campus Physical Design Frameworks*

1C: *Delegated-Authority Project: Certification Checklist*

Attachment 2: *Pilot Delegated Process for Capital Improvement Projects Report*